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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 001538

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DEPARTMENT FOR EUR/CARC, EUR/ACE AND ISN/NESS-PMETZ
DEPARTMENT OF ENERGY FOR BOB MOFFITT

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TAGS: [ECON](#) [ENRG](#) [PNNL](#) [AM](#)

SUBJECT: A GOOD START: GOAM COMMITS FUNDS TO NUCLEAR SAFETY
UPGRADES AND PLANT DECOMMISSIONING

REF: YEREVAN 910

Classified By: CDA A.F. Godfrey for reasons 1.4 (b,d).

SUMMARY

¶1. (C) The GOAM has pledged USD 5.3 million towards safety upgrades at the Armenian nuclear power plant (ANPP) and USD 1 million annually to support Armenia's newly established decommissioning fund. The European Commission and the U.S. also proposed between USD 6-7 million each for safety upgrades leaving a relatively modest (approximately USD 7 million) shortfall in funds needed to complete the list of critical safety upgrades identified by the IAEA. The GOAM's pledges are evidence of its willingness to cooperate with the international community on nuclear energy, but Armenia still must demonstrate commitment by reinvesting more energy sector revenues into plant safety and maintenance. Continued targeted USG assistance makes sense, to promote safe and responsible energy policies. END SUMMARY

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GOAM PLEDGES USD 5.3 MILLION TO SAFETY UPGRADES
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¶2. (C) An IAEA-supported donors' conference was held October 12-13, as a follow-on to a December 2005 technical conference in Vienna. At the Vienna Conference, the IAEA identified a list of priority safety upgrades needed at the ANPP the total cost of which was estimated by plant staff to be USD 35 million. Donor estimates of the cost were modestly higher. The objective of this follow-on conference was to identify funding for the various upgrades. Many of the upgrades identified in the IAEA list are already underway thanks to support from the European Commission (EC), U.S. and U.K. The GOAM has provided past support as well (both for safety equipment and operational safety improvements). At this conference, the Deputy Energy Minister announced the GOAM would allocate USD 1.5 million annually to additional safety upgrades and the GOAM identified a total of USD 5.3 million in projects from the IAEA list which it intends to fund. The EC and U.S. made similar proposals of USD 6-7 million each over the next three years contingent on budgetary approval. The U.K. program is scheduled to phase out in March 2008 and the U.K. was not able to commit any additional funds. The remainder needed to complete the IAEA list (based on plant staff cost estimates) is approximately USD 7 million. It is important to note, however, that some of the items on the IAEA list are diagnostics which may identify additional work that needs to be done.

POSSIBLE USG SUPPORT FOR REDUNDANT INSTRUMENTATION

13. (C) Unfunded items on the IAEA list included a USD 3 million project to develop enhanced instrumentation redundancy and construction of a back-up emergency control panel in a secondary location estimated to cost USD 2 million. These projects were identified as important, priority 1 and 2 improvements which the U.S. might usefully support if funding becomes available. Apparently, these improvements had been included in past USG project lists, but were deleted due to funding limitations.

REGULATOR RECOVERING FROM MOVE TO MIN. OF NATURE PROTECTION

14. (C) Representatives from the Armenian Nuclear Regulatory Agency (ANRA) told conference participants that the status of the regulator has improved significantly. Staff salaries have doubled, allowing the ANRA to rehire (or contract for) approximately one third of the staff who left when salaries were slashed when ANRA moved into the Ministry of Nature Protection in 2003. ANRA has also started a program to hire and train a new generation of staff (at present most staff are 50 or older, leaving a vacuum in the junior ranks). ANRA remains understaffed however, with only 16 full-time employees. The EC is currently providing some support to ANRA, but conference participants agreed that additional GOAM and donor support is needed to strengthen ANRA to the point where it can effectively regulate nuclear issues.

A SIGNIFICANT STEP FORWARD ON DECOMMISSIONING

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15. (C) USAID-supported energy experts at PA Consulting raised concerns about the management of the decommissioning fund, level of GOAM support and the nonexistent role of GOAM regulators in fund management. Conference participants agreed, however, that having the fund in place was a good first step. The GOAM also pledged to work with donors to improve fund management. (COMMENT: The rushed approval of the decree on the eve of the conference appears to have been a successful effort by the GOAM to make sure that they had something to bring to the table. END COMMENT). A million dollars annually is woefully insufficient to accomplish shutdown and decommissioning beginning in 2016, the deadline to which the GOAM has agreed if replacement power is available. The Energy Minister hoped for concessionary donor funding to make up the difference. He called specifically on the EU to support the first phase of decommissioning as part of a 100 million Euro assistance package that has been under discussion for some time. The USG did not commit any financial resources to decommissioning, but has provided and will continue to provide, extensive technical assistance to support development of the decommissioning plan.

POSITIVE CASH FLOWS, ANOTHER POSSIBLE SOURCE OF FUNDING?

16. (C) According to USAID-funded contractor PA Consulting, in the past two years there has been a significant positive cash flow from certain parts of the energy sector which could be redirected into either plant safety upgrades or decommissioning. Revenues at the Voroton Hydro Power Station exceed operating costs by approximately USD 20 million annually if operations continue at normal levels. ANPP revenues also include approximately USD 1.5 million annually for plant safety upgrades and additional funds for non-safety capital improvements (such as dry spent fuel storage expansion). The GOAM's plans for the Voroton funds are not yet clear, though a portion is likely being spent on

upgrading the transmission lines in southern Armenia. These cash flows are also contingent on variable production costs; there is no certainty that Armenia will benefit from these positive cash flows in future years. (COMMENT: While it is unlikely that the GOAM will dedicate all of these funds to the ANPP and/or decommissioning, it may be able to use a portion of these funds to redress the shortfall in the budget needed for safety upgrades. END COMMENT) At the conference, the U.S. delegation underscored the need to develop a "culture of safety at the plant evidenced...by reinvesting a sufficient portion of the cash flow obtained from the energy sector into the plant to ensure plant safety and maintenance."

SUPPORT FOR A NEW PLANT

17. (C) The ANPP provides approximately 40 percent of Armenia's electricity and the GOAM has made it clear that they must identify replacement capacity before the current plant is decommissioned. At a conference in July 2006, the GOAM, with technical assistance from USAID, identified construction of a new nuclear power plant as the least-cost option for developing replacement capacity (reftel). The GOAM has asked the U.S. and other donors to support construction of a new plant. At the October conference in Yerevan, we responded: "Once Armenia has demonstrated its commitment to a culture of safety and a comprehensive decommissioning plan, the U.S. will be ready to engage with Armenia on the question of a new nuclear power plant. We would consider for example, technical assistance to develop a proposal for a new plant, facilitating trips by private American investors interested in the project, and support to help Armenia identify other possible sources of funding for plant construction." The GOAM reaction to our position was very positive and they welcomed our support.

COMMENT: CONTINUED SUPPORT MAKES SENSE

18. (C) The GOAM's pledges to support safety upgrades and a decommissioning fund are tokens of good faith, but we need to see if the GOAM will follow through. The U.S. plays a key role, providing not only financial support, but technical expertise and institutional knowledge which contribute greatly to improved safety at the plant. USG-funded experts

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have established strong working relationships with plant managers and personnel and with counterparts at the Ministry of Energy, the Armenian Nuclear Regulatory Authority and the Public Services Regulatory Commission. We should match increased GOAM commitment with increased U.S. assistance to help the GOAM take prudent steps toward safer power generation. END COMMENT.

19. (U) Members of the U.S. delegation to the conference, including DOS Senior Coordinator for Nuclear Safety, ISN/NESS, Patricia Metz and USAID Energy Restructuring and Regulatory Specialist Walter Hall, have cleared on this telegram.
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